

1 that we're offering today.

2 So, with that, I'll close my remarks.

3 COMMISSIONER ABERNATHY: And now
4 we'll hear from Billy Jack Gregg, Consumer
5 Advocate from West Virginia.

6 CONSUMER ADVOCATE GREGG: Ditto to
7 Bob and Lila. Good luck, God speed in your
8 transition to civilian life.

9 In my entire time on the Joint Board
10 the issues that we faced remain the same.
11 It's whether we're going to support access or
12 excess. Unlike my fellow commissioners, when
13 I read the comments, I did see a broad
14 agreement among the parties. It was that
15 there is abuse in the system, and it's the
16 support that the other guy is getting.

17 I hope that as we talk about trying
18 to harmonize the currently existing rural and
19 non-rural support mechanisms, that we don't
20 lose sight of the more distant future and what
21 an appropriate universal service support
22 system will be in a broadband age that is
23 rapidly coming down upon us. And I'm going to
24 take any opportunities I have today to elicit
25 suggestions from the panelists on steps we can

1 start to take now to transition the universal
2 service fund to one that will be appropriate
3 in the broadband age. Thank you.

4 COMMISSIONER ABERNATHY: Thank you
5 very much, Billy Jack.

6 And then finally we'll hear from
7 Commissioner Lila Jaber from Florida.

8 COMMISSIONER JABER: Thank you,
9 Commissioner.

10 I think that I can take the liberty
11 and speak on Bob's behalf as well --
12 Commissioner Rowe's behalf that this is an
13 awesome body that has been led by a fantastic
14 manager/leader in Kathleen Abernathy. I think
15 Bob and I can attest to the fact that
16 certainly the criticism that the Joint Board
17 moves slow has been put to bed under your
18 leadership, Kathleen. And I just want to stop
19 and recognize you for your incredible ability
20 to have the body reach consensus when we could
21 reach consensus and be concise about the areas
22 that we just simply disagree on in a manner
23 that is timely and that has afforded an
24 opportunity for folks to respond to different
25 options that we put on the table. And I give

1 you complete credit for that.

2 And I also want to recognize
3 Commissioners Martin and Adelstein for their
4 incredible ability to have us think through
5 very tough issues. And, frankly, this topic
6 in particular, both Kevin and Jonathan have
7 been voices and, before you, Commissioner
8 Copps, who started out on the board when I got
9 on the board and Bob was on the board -- just
10 for your thoughtful, deliberative manner and
11 requesting that we think through all issues
12 and being the voices of reason when we
13 desperately needed that.

14 This is an incredible opportunity,
15 commissioners and folks in the audience, to
16 think ahead while times that -- there are
17 state commissioners leaving. And, certainly,
18 Bob and I will miss our state colleagues on
19 the Joint Board and we recognize you for your
20 effort. I see it as a fantastic opportunity
21 to move forward. And I think Elliott and Ray
22 are two people that can help in that regard
23 and my compliments to the selection.

24 But I also think it's an opportunity
25 to move the universal service program forward.

1 Like all things in all programs, certainly
2 government-type programs, there are
3 inefficiencies that have to be addressed.
4 That's not to take away from the success of
5 the program. Billy Jack referenced that a
6 little bit earlier, that we have heard that
7 there are reforms, and certainly we see
8 directly that there are reforms that need to
9 take place. And we are excited today to hear
10 what those reforms should be.

11 But I hope we also remember that this
12 is a well-founded, successful program that
13 needs to be improved upon and become even more
14 sustainable. And the questions I have today
15 really go toward trying to figure out what
16 these improvements are. In my questions,
17 you'll see a theme. I'm really focused on the
18 definition of a rural telephone company and
19 how that plays a part in this debate going
20 forward.

21 My compliments, again, to the entire
22 group. I wish you the best of luck and I hope
23 our paths cross again in some form or fashion.
24 We'll see you soon.

25 COMMISSIONER ABERNATHY: Thank you

1 very much, Commissioner Jaber.

2 And now we'll move toward to the
3 panel. I want to emphasize what we would
4 love, because we do have your written
5 materials, which we have reviewed. If you
6 could keep it down to three minutes, which I
7 know is really tough -- but that's because we
8 do want to hear them all, but we want to
9 direct specific questions at you.

10 If you could also go ahead -- we'll
11 start with Rich Coit and work our way down the
12 line. If you go ahead and introduce yourself
13 very briefly, make your presentation. And
14 then as questions are asked, if you could
15 identify yourself, because we have a record
16 that's going to go into the docket. And we
17 want to be able to identify which parties are
18 supporting various proposals.

19 So, we'll start with Rich Coit of
20 South Dakota Telcommunications Association.

21 MR. COIT: Thank you, Madam Chairman,
22 members of the committee -- or the board. I
23 would just like to thank you for inviting me
24 today. I look at this as an honor. And I
25 think, looking at other members of the panel,

1 we will have a great discussion today. And
2 hopefully we'll get closer to where we need to
3 be to get to where we need to be in the
4 future.

5 I would just like to spend just a few
6 minutes here just giving you a little
7 background. I am here today representing the
8 South Dakota Telcommunications Association
9 and also the National Telephone Cooperative
10 Association.

11 With respect to SDTA, as an
12 organization, currently we have 29 member
13 companies, all of which are rural telephone
14 companies. Twelve of those companies are
15 member-owned cooperatives, and 13 of those
16 companies we would consider private companies,
17 companies that are either owned by family
18 businesses -- some of those companies are also
19 owned by some of the cooperatives, are
20 subsidiaries of some of the cooperatives.

21 We have three municipal telephone
22 companies that are members, and we also have a
23 tribally owned telephone company, Cheyenne
24 River Sioux Tribe Telephone Authority.

25 In terms of the service that those

1 companies provide in South Dakota, they serve
2 approximately 152,000 access lines spread
3 across 61,000 square miles of South Dakota.
4 That accounts for approximately 75 to 80
5 percent of the state's geography. And our
6 companies serve all or part of eight of nine
7 Native American reservations in South Dakota.

8 To give you an idea of the true rural
9 nature of the companies, the three largest
10 communities served by the SDTA member
11 companies are Brookings, South Dakota, which
12 is a town in the eastern part of the state
13 with a population of about 18,504; Hot Springs
14 with a population of 4,129. And the third
15 largest is Winter, South Dakota, with a
16 population of 3,137. So, that will give you
17 an idea of the types of communities we serve.

18 Obviously, our companies serve
19 incorporated and unincorporated communities.
20 Some of the unincorporated communities, they
21 probably don't even have populations of 20.
22 So, we are very sparse in terms of the area
23 that we serve. Looking at the population
24 density of the counties that are served by
25 SDTA member companies, the average density is

1 four persons per square mile. Eleven of those
2 counties have less than two persons per square
3 mile.

4 As a group of companies, as someone
5 who's been involved in the telecommunications
6 industry and the rural industry in South
7 Dakota for a fair number of years, I can say
8 that we're proud as an industry of the
9 investments that the rural carriers have made
10 in South Dakota.

11 As a group, they've deployed almost
12 6,000 miles of fiber across the state, which
13 includes a backbone network today utilizing
14 SONET and EWEM technology. These facilities
15 have allowed us to extend frame relay and ATM
16 services to any requesting school in our
17 service areas. That was done in large part in
18 partnership with the Digital Dakota Network,
19 which is an entity, a network, of leased
20 facilities established by the State of South
21 Dakota for use by schools throughout the
22 state.

23 We have -- looking at the local
24 facilities' deployment, local exchange
25 facilities' deployment, any upgrades of the

1 loop facilities over the past five or six
2 years or so, we have been able to reach 250
3 communities with DSL services. VDSL is also
4 now available in more than 50 of those
5 communities.

6 There are a number of issues that are
7 before the board today. I suspect that
8 probably much of the discussion will be on
9 forward-looking cost models versus embedded
10 cost models. As you can tell from our written
11 comments, we have indicated support for the
12 embedded cost models. We've -- you will hear
13 challenges today to -- and criticisms of both
14 of those methods, and I would just ask the
15 Joint Board as you evaluate those criticisms,
16 evaluate alternatives to address the issues
17 that are presented -- first and foremost, we
18 believe that the Joint Board needs to,
19 whatever it adopts, adopt a mechanism that is
20 consistent with promoting continued
21 infrastructure investment.

22 If you look at the current method
23 this is utilized, we believe it certainly has
24 been consistent with that. In looking at all
25 the investment that has been made in South

1 Dakota, I think in large part we've been able
2 to do what we've done as a result of the
3 mechanisms that are in place today. So, in
4 our view, looking at -- you know, there are
5 standards in the Act: specific, sufficient,
6 predictable. But first and foremost, look at
7 what the impact on the investment is going to
8 be, because if you don't have that investment,
9 that continued investment, you're certainly
10 not going to be able to preserve advanced
11 universal service, which is the general goal
12 that's set forth in the Act. Thank you very
13 much.

14 COMMISSIONER ABERNATHY: Very good.
15 Thank you very much.

16 Now, we'll move on to Paul Garnett
17 from the CTIA.

18 MR. GARNETT: My name is Paul Garnett
19 from CTIA. We represent, as you know, all of
20 the major providers of mobile wireless
21 services in this country in addition to a
22 number of small- and medium-sized carriers,
23 manufacturers and applications providers.

24 First of all, I'd like to thank the
25 Joint Board for including CTIA on this panel.

1 Increasingly, the wireless industry is
2 contributing to the universal service
3 mechanisms, and we also increasingly are
4 receiving high-cost support. So, we feel it's
5 important that we be included in whatever
6 debate there is about the future of the
7 high-cost support mechanisms and other
8 universal service debates.

9 CTIA and its member companies think
10 that this proceeding along high-cost and
11 contribution-related proceedings and the
12 intercarrier compensation proceeding together,
13 will have a significant impact on the way
14 services -- first of all, whether and how
15 services are deployed, both information
16 services and telecommunications services are
17 deployed in rural areas in the foreseeable
18 future. So, you have a significant task
19 before you.

20 In our comments CTIA has presented a
21 proposal for reforming the high-cost
22 mechanisms. And in developing that proposal,
23 we tried to do exactly what Billy Jack Gregg
24 described, which is to really try to have as
25 long a time period, as long a horizon as

1 possible in developing those proposals; not to
2 just look at what the high-cost mechanisms
3 should look like in the next couple years, but
4 what the mechanisms potentially should look
5 like ten years from now when we really have a
6 different industry.

7 And we considered a lot of different
8 things. We considered keeping the embedded
9 cost system, competitive bidding, direct
10 consumer subsidy, forward-looking cost. We
11 considered all those things, and we sat down
12 with our member companies over a series of
13 calls, just like I know you will go through
14 this process on Joint Board calls and among
15 yourselves, tried to come up with a proposal
16 that basically moves us forward into the
17 future and has a mechanism in place that
18 basically accommodates what's been happening
19 in the industry.

20 Taking a step back, in developing our
21 proposal, we looked first at the Act, which
22 requires that the support mechanisms be -- as
23 you have all mentioned -- predictable,
24 sufficient, specific; that the mechanisms
25 focus on consumers first and foremost; and

1 ensure that consumers in rural high-cost areas
2 have access to the same types of services and
3 the same options that are available to
4 consumers in low-cost urban areas.

5 Beyond the basic framework provided
6 in the Act, we also came to agreement on some
7 core principles for reform. The first thing
8 that we agreed on is that whatever system is
9 in place needs to be administratively as
10 simple as possible. We all agreed that the
11 current system has way too much administrative
12 complexity. The second thing we agreed on is
13 that whatever system is in place must
14 encourage and reward efficiency over time.
15 And thirdly, we agreed that whatever system is
16 in place has to appropriately target support
17 to high-cost areas. It's not enough for the
18 mechanisms to calculate what may on average be
19 high cost. You have to make sure that the
20 support, whatever it is, actually gets spent
21 and targeted to those high-cost areas that
22 need it.

23 So, with that in mind and having
24 considered a whole number of possibilities, we
25 ultimately agreed that the best system for

1 achieving those goals is one based on
2 forward-looking economic cost, which is what
3 the Commission and the Joint Board has come to
4 agreement on in several instances in the past.

5 So, here's our proposal. Basically,
6 the way we have laid it out in our comments is
7 that over time we transition from our current
8 system of five high-cost support mechanisms
9 plus two derivative high-cost mechanisms
10 created under the high-cost loop mechanism
11 down to one high-cost mechanism that
12 calculates support based on forward-looking
13 economic costs. That mechanism would target
14 support to wire centers. Initially, it would
15 base support for both incumbents and
16 competitive ETCs on the incumbent LEC's
17 forward-looking cost for a specific wire
18 center. Ultimately, you would develop a
19 mechanism that would calculate support for
20 specific areas based on the most efficient
21 technology in that specific geographic area,
22 whether that's wireless or wireline or
23 whatever.

24 Under whatever mechanism is in place,
25 though, we think it's critical that equal

1 per-line support be available on a
2 non-discriminatory basis. So, whatever the
3 support is based on, whether on wireless costs
4 or on wireline costs, support should be equal.

5 How do we get there? It's not
6 something that would happen overnight. It
7 would have to happen over a number of years.
8 We would transition, first, big carriers to
9 the forward-looking support mechanism. We
10 would need to make a number of changes to the
11 forward-looking mechanism in order to get
12 smaller carriers on it. We would have to get
13 rid of state-wide averaging, change the
14 benchmarks possibly.

15 But two things that definitely will
16 need to happen in order to get us there, first
17 of all, the Joint Board and the Commission are
18 going to have to devote resources to making
19 this happen. And I think one of the big
20 knocks on the forward-looking mechanism in the
21 past is that the Commission did not devote
22 appropriate resources to keeping that
23 mechanism up-to-date and keeping inputs to the
24 mechanism up-to-date. The rules should be
25 codified to require frequent updates to the

1 mechanism, whatever it is. And the Commission
2 needs to set firm deadlines for that
3 transition.

4 And we look forward to discussing
5 this proposal further with you.

6 COMMISSIONER ABERNATHY: Thank you
7 very much, Paul.

8 And now we'll move on to Jeff
9 Reynolds of Parrish, Blessing, and Associates.

10 MR. REYNOLDS: Good afternoon. My
11 name is Jeffrey Reynolds. I'm a principal in
12 the economic consulting firm of Parrish,
13 Blessing, and Associates and testifying today
14 on behalf of the Independent Telephone and
15 Telcommunications Alliance. ITTA is an
16 organization of mid-sized telephone companies
17 serving thousands of rural communities. ITTA
18 member companies serve a large proportion of
19 the rural lines in the nation.

20 ITTA appreciates the opportunity to
21 offer this testimony on the continuing need to
22 provide specific, predictable, and sufficient
23 universal service, high-cost support for rural
24 carriers. ITTA urges you to recommend that
25 the FCC continue to use the statutory

1 definition of rural telephone company to
2 determine eligibility for high-cost support.
3 ITTA advocates that the FCC continue to
4 calculate support on a study-area basis for
5 rural telephone companies. ITTA also asks you
6 to recommend retaining the use of embedded
7 actual cost in calculating support level for
8 rural carriers.

9 The use of the statutory definition
10 of rural telephone company to determine
11 eligibility for rural universal service
12 support has worked well. This definition
13 contains multiple criteria for a reason. No
14 single attribute could adequately define
15 carriers serving rural areas. The record in
16 this proceeding confirms that rural areas
17 should be **treated** differently than non-rural
18 areas. There also are **substantial differences**
19 among rural areas. Study areas served by
20 rural carriers vary significantly in many
21 aspects, including line density, topography,
22 and demographics. Because of this, use of the
23 definition of rural telephone company under
24 the Act reflects and captures the variability
25 of these markets better than any single test

1 would.

2 Further, there is no compelling
3 reason to change this definition. Such a
4 change in eligibility likely would cause
5 certain rural carriers and the communities and
6 customers they serve to lose substantial
7 support. Considering the many comprehensive
8 reform measures currently before the FCC, this
9 is not the time to make radical changes to
10 universal service support eligibility rules.

11 In addition to considering major
12 changes to the current system of universal
13 service support, the FCC is considering
14 comprehensive reform to intercarrier
15 compensation. This proceeding will
16 disproportionately affect rural carriers. The
17 Joint Board must account for these shifts
18 before advocating any piecemeal changes to the
19 rural universal service fund eligibility and
20 calculation rules. The Joint Board should
21 take care not to exacerbate the volatile
22 regulatory environment already faced by rural
23 carriers.

24 Similarly, the Joint Board should
25 reject proposals to require carriers owned in

1 a holding company structure to average their
2 costs holding-company wide or statewide. By
3 averaging costs across rural and non-rural
4 study areas, many study areas suddenly would
5 no longer qualify for high-cost loop support.
6 In other words, a rural study area could lose
7 its high-cost funding simply because it is
8 served by a telephone company that has
9 non-rural affiliates. Moreover, any averaging
10 approach to a cost-recovery mechanism creates
11 implicit subsidies and/or significant
12 increases in rates in rural areas. Either
13 result would be contrary to the goals of
14 section 254 of the Communications Act and work
15 to the detriment of rural consumers.

16 This proposed change also would
17 encourage holding companies that through their
18 operating subsidiaries serve both rural and
19 non-rural areas to sell off non-rural exchanges.
20 Such fractionalization of the industry would
21 destroy efficiencies that cannot be matched by
22 stand-alone telephone companies. The current
23 system fully captures the scale economies of
24 holding companies. These efficiencies lower
25 the company's reportable costs for universal

1 service support purposes and reduce demand on
2 the high-cost fund.

3 Finally, ITTA advocates that rural
4 universal service continue to be calculated
5 using embedded costs and not a forward-looking
6 model. The embedded-cost mechanism is the
7 most precise method for determining network
8 cost. The differences between rural and
9 non-rural carriers make it problematic to apply
10 a forward-looking high-cost support mechanism
11 to rural carriers. The distortions caused by
12 a forward-looking cost models are far less in
13 the more homogenous non-rural areas. The
14 dislocations that have been demonstrated in
15 rural areas by using a forward-looking model
16 would produce disastrous decreases in funding
17 in rural areas.

18 There is good reason why the FCC has
19 twice declined to adopt the forward-looking
20 economic cost model for rural carriers. The
21 Joint Board should recommend that the FCC once
22 again reject the movement away from embedded
23 costs. Thank you.

24 COMMISSIONER ABERNATHY: Thank you
25 very much, Mr. Reynolds.

1 And now we will hear from Joel Lubin,
2 who is with AT&T.

3 MR. LUBIN: Thank you very much.
4 Good afternoon. I want to thank
5 members of the Joint Board for putting the
6 hearing together and allowing me to
7 participate on the panel.

8 Before I address the questions asked
9 by the panel, I'd like to put some issues in
10 this proceeding in perspective. I'm going to
11 attempt to do that and summarize it in three
12 minutes, if I can.

13 Let me begin and talk about the issue
14 of rural versus non-rural in terms of the cost
15 methodology. As an individual who
16 participated in the Rural Task Force for about
17 27 months, I learned a lot. And what I
18 learned at that point in time is that it's
19 extremely difficult to create a
20 forward-looking costing tool when you're
21 dealing with a thousand study areas, or 1200
22 or 1300 study areas. The record currently is
23 overwhelmed with information and data that
24 suggests the dilemma. I'm not saying it can't
25 be solved, but if it is going to be solved,

1 you're going to have to spend a tremendous
2 amount of resources and a tremendous amount of
3 time. Up to this point in time, I have not
4 seen that.

5 Point number two, before we harmonize
6 the issues of costing between rural and
7 non-rural, from my point of view, I think there is
8 something even more important that requires
9 harmonization. And that is the patchwork
10 quilt of all forms of intercarrier
11 compensation methods. From my point of view,
12 I believe the intercarrier compensation issues
13 need to be addressed, have to be addressed,
14 and they can be addressed. I couple that with
15 universal service reform as well.

16 And the reason why I believe it is so
17 important is because, A, it's broken; and, B,
18 depending on how that gets changed, it will
19 affect how you answer the questions that are
20 before you today. It could, in fact,
21 eliminate the need for the questions to be
22 answered or, clearly, if they still need to be
23 answered, the way in which you solve it would
24 in my opinion be fundamentally different.

25 Second point is there's another

1 docket -- I guess it's the next panel on
2 eligible telecommunications carrier. There
3 again, I think you have to wait before you
4 answer some these questions until you see the
5 outcome of that docket. My company has put
6 forward the concept -- and it's in the record
7 of other carriers or participants, as well --
8 of identifying a benchmark. That is to say,
9 over some level of subsidy that you obtain in
10 a particular geography, you conclude that you
11 only want to have one ETC. If you only have
12 one ETC, the question then becomes, is it
13 critical to have a TELRIC method for that one
14 ETC in that area if you're not going to have
15 multiple ETCs.

16 The other thing that I heard today
17 and is also in the record is this concept of
18 infrastructure. I think that code word for
19 infrastructure, as I understand it, is a code
20 word of we are in a circuit-switch world
21 moving to an IP world. And as we move from a
22 circuit-switch world to an IP world, I assume
23 incumbents want to ensure that the money that
24 they're getting in a circuit-based world will
25 still be potentially available in an IP world.

1 I think that's a very legitimate question to
2 be looked at.

3 I also hear Billy Jack Gregg raise
4 the issue of where are we going in the future
5 with broadband. I think that's another
6 critical point that also has to get addressed.
7 And it also fits in with the whole
8 infrastructure question. And the reason why I
9 perceive it to be important is depending on
10 how this evolves, it's going to again help
11 begin to answer how these questions should be
12 answered and how one transitions the answers
13 to these questions in terms of operational
14 plans.

15 And I'll even just go one step
16 further. If we're talking about
17 infrastructure ultimately being supported by
18 universal service and we're ultimately talking
19 about a broadband pipe into the home, then the
20 question ultimately comes to how many
21 broadband types are you willing to subsidize
22 into the home. And so, I would hope we don't
23 take legacy solutions and try to superimpose
24 them in the new world. So, my bottom line is
25 I would hope that the Joint Board should

1 proceed very cautiously with their
2 investigation, and it should certainly not
3 require devotion of resources, whether they be
4 state, federal, or industry resources, prior
5 to an order on intercarrier compensation and a
6 Commission order on ETC designation.

7 Thank you, and I'll be glad to
8 respond to questions.

9 COMMISSIONER ABERNATHY: Thank you
10 very much, Mr. Lubin. That was great.

11 Now, we'll hear from Mr. Weller with
12 Verizon.

13 MR. WELLER: Thank you, Madam
14 Chairman, and commissioners for the
15 opportunity to speak you today. My name is
16 Dennis Weller. As you just heard, I'm with
17 Verizon.

18 I think that we've all been reminded,
19 if we perhaps needed to be, by the recent
20 flap over accounting rules at USAC of the fact
21 that we're basically skating on the outer of
22 limit of what is possible for support in terms
23 of the overall size of the federal mechanisms
24 using any carrier contribution mechanisms and
25 not emphasize any -- I think if we do long